

**STATE OF MICHIGAN
CIVIL SERVICE COMMISSION
COORDINATED COMPENSATION PANEL**



**Coordinated Compensation Proposal
for
Fiscal Year 2018**

**Recommendations for Nonexclusively Represented Employees in the State Classified
Service for the Fiscal Year Beginning October 1, 2017**

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Introduction

Rule 1-15.4(c) states that the Employment Relations Board shall serve as the coordinated compensation panel. Rule 5-1.3 charges the panel as follows:

The coordinated compensation panel shall send a recommended coordinated compensation plan for all nonexclusively represented classified employees to the civil service commission. The panel shall consider negotiated collective bargaining agreements, any impasse panel recommendations, and any recommendations of the employer or employees.

Regulation 6.06 establishes a process for employee participation and guidelines for the panel in making its recommendations. Under the regulation, participants in the Coordinated Compensation Plan process include the Office of the State Employer (OSE) and organizations granted limited-recognition rights under Rule 6-8.3. The following limited-recognition organizations participated in this year's process:

- Association of State Employees in Management (ASEM)
- Michigan Association of Governmental Employees (MAGE)
- Michigan State Police Command Officers Association (MSPCOA)

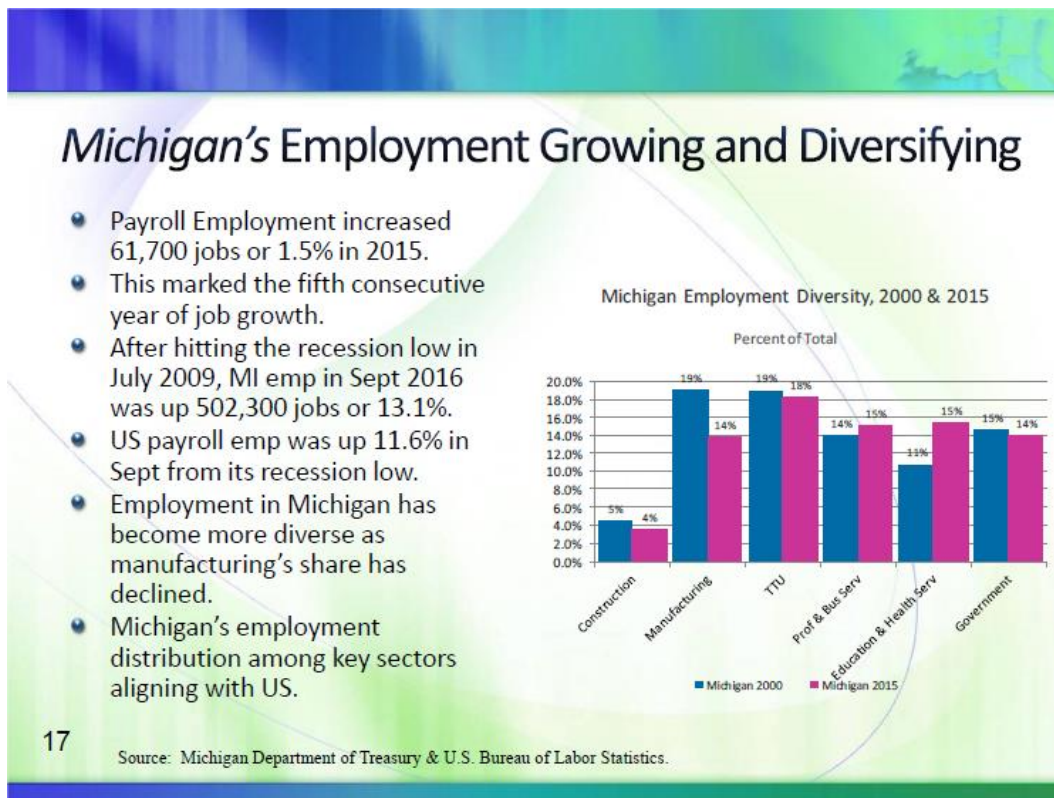
Nonexclusively represented employees (NEREs) who are not members of limited-recognition organizations may also participate upon leave granted by the panel. No employees requested to participate this year.

The panel held a hearing on November 1, 2016. All parties were allowed to make presentations and respond to proposals of other parties. Having reviewed the parties' arguments and submissions, the panel offers the following summary and recommendations to the Commission.

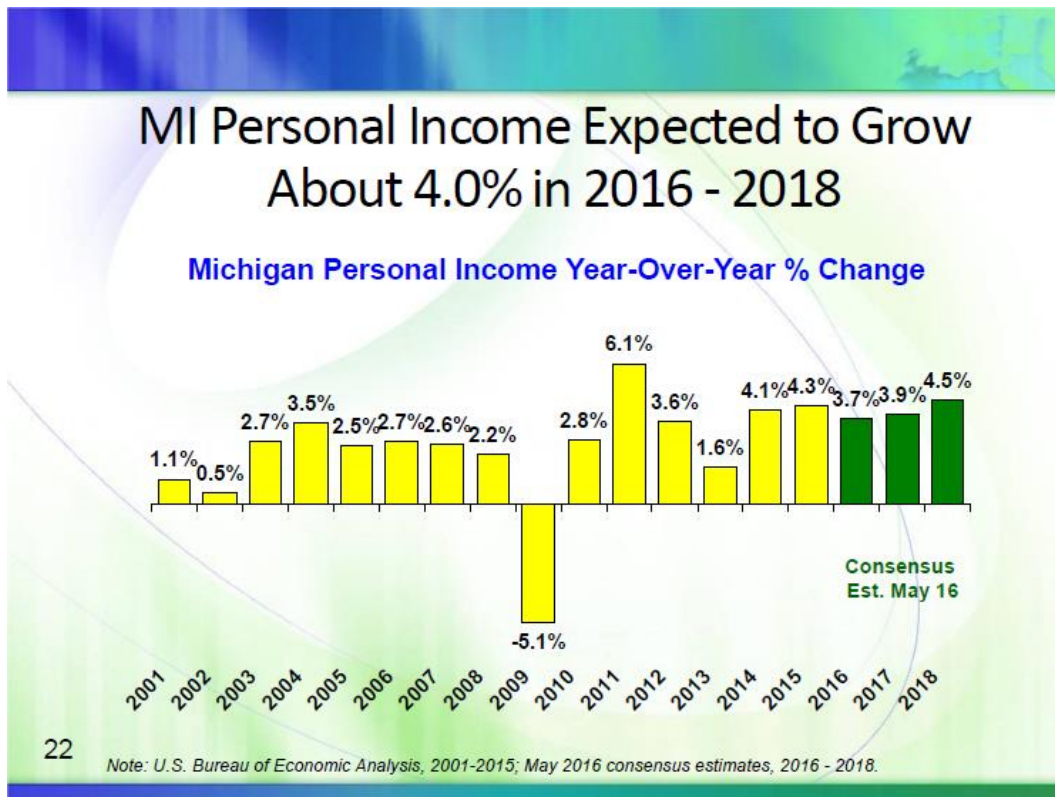
Economic Overview

Consistent with Regulation 6.06, which calls for the panel to consider “the current and forecasted financial condition of the State” in making its recommendations, the panel received evidence on fiscal year (FY) 2018 revenue forecasts and budget projections as part of the OSE’s presentation. The following is a brief summary of the information provided by staff of the Department of Treasury and State Budget Office:

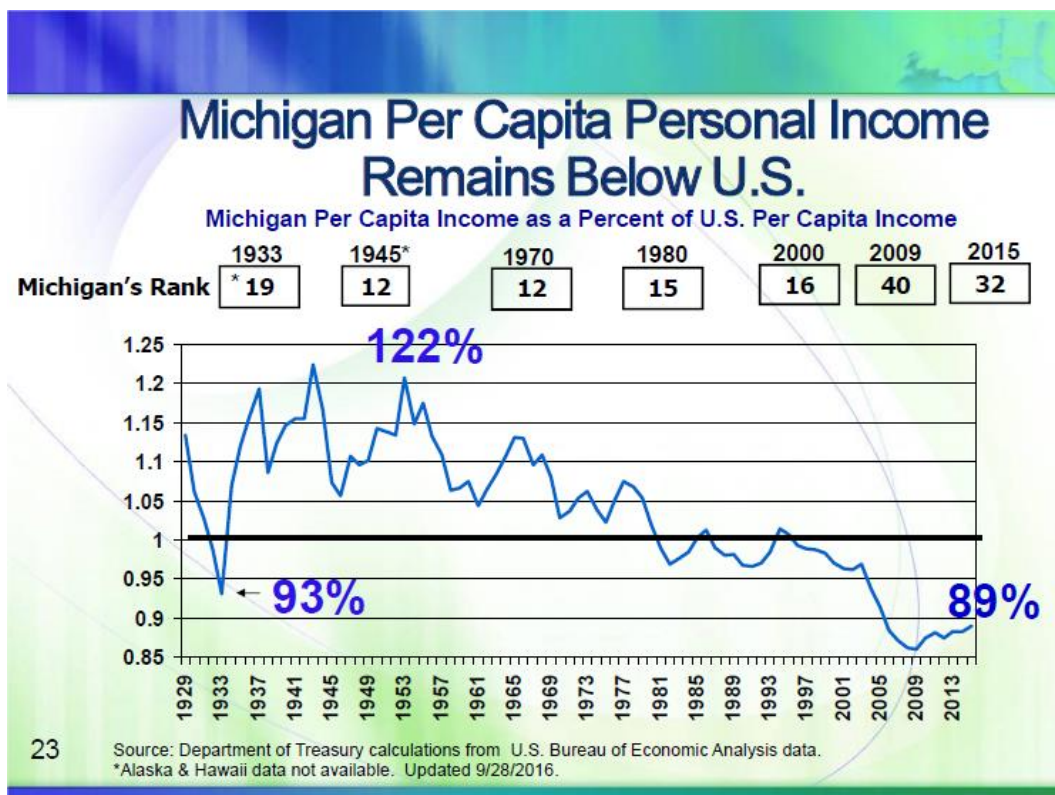
- Jobs in Michigan have increased for five consecutive years and increased by 502,300, or 13.1%, since July 2009.



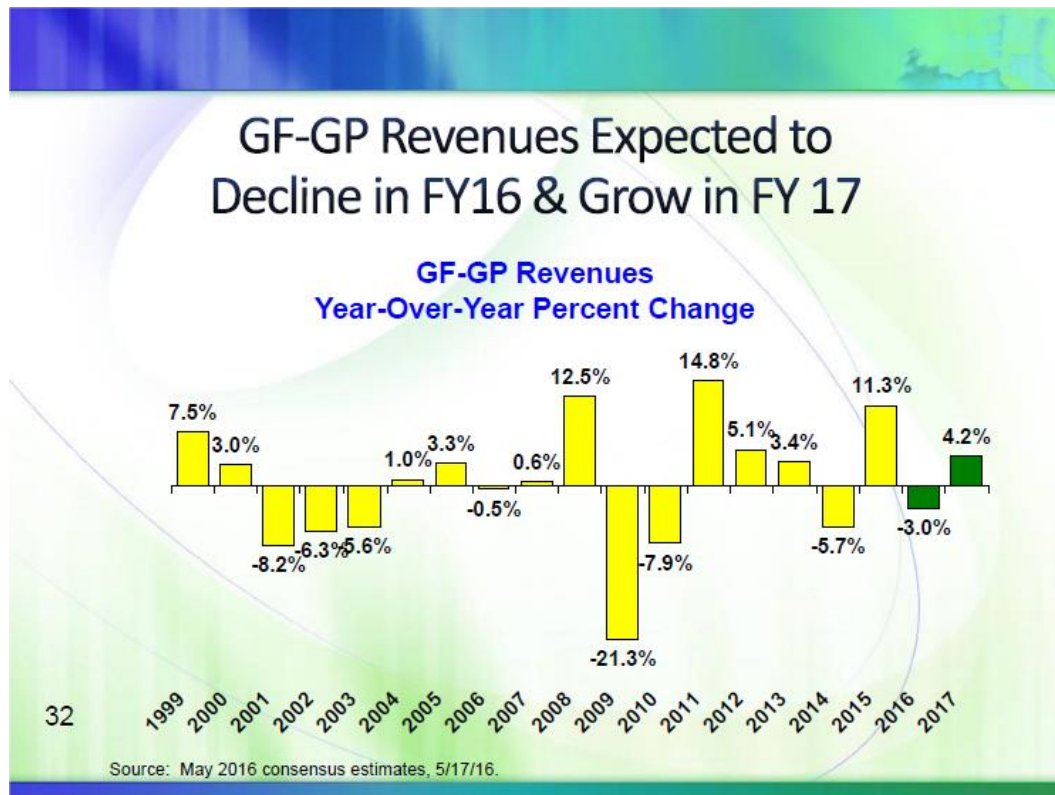
- Michigan expects continued modest personal income growth through 2018.



- But Michigan's per capita personal income remains below the national average.



- General Fund revenue is expected to decline in FY 2016 and grow in FY 2017.



- General Fund revenue is estimated to increase by 4.6%, or \$468.6 million, in FY 2018.

GF-GP Revenue Scenarios for FY 2018 (millions)

<u>FY 2017 GF-GP Amount</u>	<u>FY 2018 Assumed % Growth</u>	<u>FY 2018 New Revenue</u>
\$10,138.5	-2.5%	(\$253.5)
\$10,138.5	0.0%	\$0.0
\$10,138.5	2.5%	\$253.5
\$10,138.5	4.6%	\$468.6
\$10,138.5	5.0%	\$506.9

Source: Office of Revenue and Tax Analysis, MI Dept. of Treasury. (8/17/2016). Current consensus estimate in box (May 2016 consensus). New revenue reflects estimated impact of enacted tax changes.

- Non-discretionary cost adjustments of about \$195 million, increased state share of Medicaid and Health Michigan Plan costs of about \$100 million, and unknown increased pharmaceutical costs are expected.

The OSE presented evidence on costs per state employee for FY 2016 by bargaining unit. The average statewide base wage per employee was \$59,870.58, while the average base wage per NERE was \$74,499.84.

MAGE argued that economic trends are largely positive with significant recovery in the automobile sector and housing market. MAGE also highlighted several consecutive years of job growth, continuing improvement in unemployment, and increasing tax collections.

Proposals and Positions

I. Wages and Benefits

A. Wages

1. The OSE Proposal

The OSE recommends a general-wage increase of 3% for NEREs in October 2017. According to the OSE, this increase is consistent with tentative agreements reached for exclusively represented employees. The OSE estimates the proposed 3% increase would cost \$51.8 million.

2. ASEM Proposal

ASEM agrees with the OSE's proposed 3% increase for FY 2018. It also requests a 1% lump sum for FY 2018.

3. MAGE Proposal

MAGE seeks a general-wage raise of 4% for all NEREs to recognize dedicated state employees who worked hard to get promoted. MAGE also requests other adjustments to address wage compression issues, both generally and for specific classifications.

4. The OSE Response

The OSE opposes ASEM's and MAGE's proposed increases. The OSE asserts that:

- ASEM's lump-sum proposal does not recognize high total-compensation costs that continue to increase each year. The proposed 1% lump sum would cost an estimated \$17.3 million in FY 2018.

- MAGE's proposed 4% general wage increase would cost \$69 million in FY 2018.
- Both proposals fail to recognize that total pay and benefits—and not just base wages—must be considered. Other NERE benefits reflect an additional 80% of total wage costs that the panel should view as part of NERE compensation. NEREs also enjoy leave benefits that are more generous than most employers.

5. Recommendation

During this year's round of bargaining, the OSE reached voluntary agreements including 3% general-wage increases for FY 2018. The panel has previously recognized the need for equitable treatment of NEREs. The panel further finds that, given the combination of improving economic conditions and remaining budgetary uncertainties, the OSE's proposal represents a reasonable wage adjustment. Neither MAGE nor ASEM provided compelling evidence of a need for pay increases greater than those suggested by the OSE. Accordingly, **the panel recommends** adopting the OSE's proposal.

B. Special Pay Increases

1. MAGE Incentive Bonus Proposal

MAGE requests incentive bonuses of a 1% wage increase or lump-sum bonuses at 5-, 10-, 15-, and 20-year intervals for employees remaining in NERE positions. MAGE asserts that:

- There are examples of pay compression or pay inversion caused by the lack of comparable treatment between NEREs and represented employees.
- Child and Adult Protective Services Supervisors are called at all hours to handle dangerous situations without overtime pay enjoyed by represented employees.
- Supervisors are responsible for more staff than in past years causing many NEREs to be overworked. Michigan now ranks 45th for full-time employees per capita.
- Pay inversion continues to limit the number of employees interested in promoting.

2. The OSE Response

The OSE opposes the proposed promotion incentive. The OSE asserts that:

- Such payments would be in addition to the State's longstanding longevity program. The state spent almost \$17 million on longevity payments, plus additional retirement contributions of approximately \$9 million, in FY 2016.

- The cost for FY 2018 for MAGE's proposed program would be an additional \$3.5 million for the lump sum. The amount would change each year depending on the pay rate and number of employees reaching a five-year service interval.
- There is no evidence that employees are not interested in accepting promotions. Many persons, both in and outside state government, apply for NERE positions. Employee engagement surveys indicate growing levels of positive responses from NEREs.

3. MAGE Registered Nurse Manager Proposal

MAGE requests a special 3% base-wage increase as a retention bonus for all Registered Nurse Managers with two or more years' service, and those reaching two or more years' service. MAGE asserts that:

- The Department of Health and Human Services has persistent problems recruiting and retaining Resident Nurse Managers, who must work overtime three days each week.
- While this problem is partially because of the nationwide nursing shortage, many nurses do not want to work in the dangerous environments of state mental hospitals and prisons.
- Turnover has increased due to diminished state employee benefits, including retirement benefits.
- The median pay for Registered Nurse Managers in the classified service is approximately \$77,600, while the median salary for nurse managers in Lansing is approximately \$82,000 and nationwide is approximately \$87,000.

4. The OSE Response

The OSE does not support the proposed Registered Nurse Manager wage increase. The proposal would cost over \$1.2 million in total for FY 2018. It is unclear how MAGE's proposal would function or how many retention bonuses an employee would be eligible for in their career. The Department of Health and Human Services (DHHS) has indicated sometimes having difficulty filling some Registered Nurse Manager positions in some locations because of working environment, facility population, and work hours. The DHHS has not provided specific data on overtime and turnover at its various facilities, but indicated it is willing to enter a pilot program with discretionary recruitment or retention incentives to qualified candidates. The details of a pilot program would be developed by the OSE and DHHS during FY 2017 for implementation in FY 2018.

5. The MSPCOA Proposal

The CCP previously recommended the MSPCOA, Michigan State Police (MSP), and OSE work together to address pay compression between Lieutenant 14s and their subordinate Sergeant 12s. The parties implemented processes to measure the issue, but they have not been in place long enough to produce meaningful information. After obtaining more information, the MSPCOA hopes to present its findings during next year's CCP process.

6. The OSE Response

The OSE appreciates the cooperation and effort by the MSPCOA and MSP and looks forward to continuing discussion with both parties.

7. Recommendation

In addition to comparisons with other workforces, the Coordinated Compensation Plan standards in Regulation 6.06 include consideration of "the continuity and stability of employment." When seeking special pay adjustments, evidence of a strong program need, such as difficulty recruiting and retaining qualified candidates should accompany a request.

The panel twice previously rejected MAGE's proposal for 1% bonuses at 5-, 10-, 15-, and 20-years of service for all employees in supervisory, managerial, and administrative positions. MAGE has not presented new or compelling evidence showing that such increases are necessary or would solve a problem. It further failed to concretely discuss how such pay increases would be administered. The **panel recommends** rejecting MAGE's request for a general seniority-based incentive program. The panel further recommends that if MAGE intends to propose a similar incentive again during a future coordinated compensation panel process that it should provide quantitative evidence of a strong program need that would be solved by the proposed incentive and propose a workable method to implement it. The panel notes the relative difficulty of meeting this burden in a request affecting all NEREs.

The panel also previously rejected MAGE's proposal for a special pay increase for Resident Nurse Managers, recommending that MAGE and OSE meet to discuss the concerns raised over the positions and provide either a joint proposal to address identified issues or a more fully developed record of the parties' understandings. The panel commends the OSE, MAGE and representatives from the DHHS for discussing the proposal and suggesting a pilot program in the DHHS. The panel acknowledges that the issues facing Registered Nurse Managers outlined by MAGE could be affecting recruitment and retention of Registered Nurse Managers and supervisors. The panel also notes that, as indicated by the OSE, the UAW's collective bargaining agreement with the state provides a retention bonus for registered nurses in the Department of Corrections (DOC). The panel cannot, however,

recommend the proposed wage increase or a pilot program until it has sufficient quantitative data showing the extent of any such recruitment and retention problems and how the proposed pay increase would help solve it. The panel also notes that the Department of Military and Veterans Affairs (DMVA) and DOC employ registered nurse managers and might provide relevant information. Accordingly, the **panel recommends** rejecting MAGE's request for a 3% base wage increase for Registered Nurse Managers and supervisors.

Under Article 11, § 5, an increase in rates of compensation for FY 2018 requires commission action for inclusion in the governor's budget in February 2017. The panel encourages the OSE and MAGE to further discuss this issue with the DHHS, DMVA, and DOC, and either (1) promptly develop some basic guidelines as to potential parameters for a pilot or (2) provide next year's panel with any specific information supporting the need for the proposed program and how it would be implemented. A system similar to some provisions in Rule 5-6 relying on state personnel director approval of portions of the pilot may offer guidance if implementation for FY 2018 is sought.

The MSPCOA has recognized that its study of pay compression with the OSE is ongoing and intends to present its findings during next year's CCP process. The panel commends the MPSCOA and OSE on their cooperation and awaits the study's results.

C. Health, Dental, and Vision Insurances

1. The OSE Proposal

The OSE proposes no plan design changes. The OSE notes that overall insurance costs to the employer would increase due to any premium rate increases. ASEM agrees that no changes should be made to plan design.

2. Recommendation

The **panel recommends** no changes to insurance plan design.

II. Miscellaneous

A. Professional Development Fund Contribution

1. The OSE Proposal

The OSE recommends continuing the NERE Professional Development Fund and providing additional funding of \$250,000 in FY 2018. NEREs requested over \$200,000 in reimbursements during the past fiscal year. ASEM agrees with the OSE's proposed increase to the fund.

2. Recommendation

The **panel recommends** adopting the OSE's proposal.

B. Annual Leave Program Adjustments

1. ASEM Proposal

ASEM proposes increasing the annual leave cap from 356 to 396 hours because many state employees cannot use their annual leave due to short staffing. ASEM also requests increasing the number of annual leave hours paid off at separation from 316 to 324 for the same reasons to mitigate increased wage deductions and a lack of pay increases. ASEM requests to meet with the OSE over this issue.

2. The OSE Response to the ASEM Proposal

The OSE opposes ASEM's proposal. Over the past five years, over 95% of employees accrued the entire 16 hours of annual leave awarded each October 1. During FY 2016, more than 88% of NEREs did not lose any annual leave. These data show that the current cap is appropriate. Raising the accrual cap would create an additional unfunded liability to the State. Annual leave is provided to allow needed breaks from work and should be used during years of service. Increasing the differential between the accumulation and payoff caps would increase the likelihood that annual leave hours are either lost at retirement or used when knowledge transfer should be taking place. The OSE met with ASEM over this request last year, and there was no new information supporting ASEM's request.

3. Recommendation

ASEM has made similar requests, which the Commission has rejected, during six of the last seven Coordinated Compensation Plan processes. Once again, ASEM has not presented new evidence that such an increase is needed. The panel has no interest in entertaining this or similar proposals in the future unless quantitative data are presented showing a need for the proposed increases. Accordingly, the **panel recommends** rejecting ASEM's proposal.

C. Pay for Performance

1. ASEM Proposal

ASEM requests that each department create a policy setting forth the criteria Group-4 employees must meet to earn pay-for-performance awards. Having the goals in writing before the beginning of each fiscal year would ensure the pay-for-performance program is handled equitably.

2. The OSE Response

The OSE does not support the proposal. The OSE believes that the civil service rules and regulations adequately address the pay-for-performance program and that departments should retain discretion to develop specific policies on departmental implementation. The OSE met with ASEM over this issue in 2015 and 2016. ASEM did not present any evidence showing changes to the pay-for-performance program are necessary. ASEM acknowledged that performance pay is subject to each employing department's budgetary constraints. OSE indicated that of 1,992 employee eligible for pay-for-performance in FY 2016, 1,464 received awards.

3. Recommendation

Last year's CCP recommendation asked the OSE and ASEM to jointly discuss this issue and present their findings this year. ASEM did not present evidence to the panel showing that changes to the pay-for-performance program are necessary. ASEM also did not provide clear parameters of how its proposal would be implemented and what would be required. The **panel recommends** rejecting ASEM's proposal on modifying pay for performance.

D. Department of Corrections Promotion Incentive

1. MAGE Proposal

MAGE requests that action be taken to interest more exclusively represented employees in the Department of Corrections to seek promotion to supervisory positions. MAGE asserts that many Sergeants work out of class instead of promoting to Lieutenant because:

- Additional base pay as a Lieutenant does not offset the reduction in overtime.
- Additional responsibilities are oppressive.
- NEREs have restrictions on using annual leave instead of compensatory time that exclusively represented employees do not.
- NEREs are not for all accumulated annual leave at separation, unlike represented employees.
- NEREs take one year longer to reach maximum longevity pay than represented employees.
- NEREs cannot choose their preferred shifts, unlike exclusively represented employees.

2. The OSE Response

The OSE does not support MAGE's proposal. The OSE asserts that Corrections Officers promoting to Sergeant, a NERE-classification, typically have two additional pay steps to reach the maximum pay for the level. The OSE disagrees that supervising state employees is oppressive. The use of leave time is not properly before the panel. NEREs can already accrue more annual leave and be paid out for more hours than exclusively represented Corrections Officers. Both NEREs and Corrections Officers must complete 29 years of service before reaching maximum longevity payment. MAGE has asserted the shift preference issue before, and the panel previously found it is not a CCP issue.

3. Recommendation

MAGE has not provided evidence that an increase in base pay for Lieutenants is necessary to correct a strong program need, nor has it quantified the pay increase requested. Though MAGE has provided anecdotal evidence of exclusively represented corrections employees resisting promotion, it has not demonstrated the scope of the alleged problem or how a pay increase of indeterminate amount would help encourage promotions. MAGE indicated that it has sought from the DOC data supporting its anecdotal evidence, but has had difficulty obtaining the data.

Arguments presented also included false or incomplete claims. NERE longevity payments reach the maximum level during the year that an employee is expected to complete 30 years. This is operationally identical to an MCO employee, who receives the full payment in the year after reaching 29 years of service. While the language differs the effect is the same. Also, while it is true that MCO employees are paid off for their full leave accumulations, MAGE has neglected to mention that NEREs are allowed to accumulate and to receive more payoffs for leave at every level of seniority. The higher leave caps afforded NEREs and the flexibility offered by having a higher accumulation cap are not evidence supporting additional benefits for NEREs.

Parties must offer position statements "proposing a change to the compensation or benefits plan." Assignment of employees, including their responsibilities, is a management right under Rule 6-4.1 and not a compensation or benefits issue, which Chapter 5 of the rules and regulations address.

Accordingly, the **panel recommends** rejecting MAGE's proposal, but encourages MAGE to continue seeking quantitative data from the OSE and DOC regarding possible disincentives to promotions by exclusively represented employees so that it can more meaningfully present its case to next year's panel.

E. Membership Information

1. ASEM Proposal

ASEM requests to continue developing a plan with the OSE to provide information to all NEREs about ASEM membership. This would allow more input to help the OSE find solutions to problems and provide better representation to all eligible employees.

2. The OSE Response

The OSE informed ASEM that it could reach out to NEREs through a third-party mailer to distribute membership enrollment material. The OSE also discussed providing a link to each LRO on its intranet page for employees to access information. The OSE also asserts that, as the panel previously found, this is not a CCP issue.

3. Recommendation

Parties must offer position statements “proposing a change to the compensation or benefits plan.” Issues related to the rights of limited-recognition organizations are labor-relations issues under Chapter 6 of the rules and regulations and not compensation or benefits issues under Chapter 5. Accordingly, the **panel recommends** rejecting ASEM’s proposal.